



Neovasc Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
MARCH 31, 2019 and 2018**

(Expressed in U.S. dollars)

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NEOVASC INC.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in U.S. dollars)(Unaudited)

	Notes	March 31, 2019	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents	6	\$ 12,115,455	\$ 9,242,809
Accounts receivable	7	720,022	647,143
Inventory	8	467,266	258,742
Prepaid expenses and other assets	9	465,305	591,236
Total current assets		13,768,048	10,739,930
Non-current assets			
Restricted cash	10	449,084	439,736
Right-of-use asset	11	1,081,399	-
Property, plant and equipment	12	793,105	813,628
Total non-current assets		2,323,588	1,253,364
Total assets		\$ 16,091,636	\$ 11,993,294
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	13	\$ 4,144,908	\$ 4,610,560
Lease liabilities	14	403,191	-
Convertible Note	15	726,671	1,423,224
Total current liabilities		5,274,770	6,033,784
Non-Current Liabilities			
Accrued liabilities	13	2,335,756	2,241,979
Lease liabilities	14	759,797	-
Convertible Note	15	10,526,999	13,194,112
Derivative warrant liability from financing	15	-	190,303
Total non-current liabilities		13,622,552	15,626,394
Total liabilities		\$ 18,897,322	\$ 21,660,178
Equity			
Share capital	16	\$ 317,888,794	\$ 304,460,533
Contributed surplus	16	27,612,565	26,260,806
Accumulated other comprehensive loss		(6,956,475)	(7,653,028)
Deficit		(341,350,570)	(332,735,195)
Total equity		(2,805,686)	(9,666,884)
Total liabilities and equity		\$ 16,091,636	\$ 11,993,294

Going Concern and Uncertainty (see Note 1 and 5d)

Subsequent Events (see Note 23)

NEOVASC INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three months ended March 31,
(Expressed in U.S. dollars)(Unaudited)

	Notes	2019	2018
REVENUE	17	\$ 585,793	\$ 339,922
COST OF GOODS SOLD		(143,994)	(87,393)
GROSS PROFIT		<u>441,799</u>	<u>252,529</u>
EXPENSES			
Selling expenses	19	368,233	286,938
General and administrative expenses	19	2,680,931	2,469,091
Product development and clinical trials expenses	19	4,239,963	3,999,391
		<u>7,289,127</u>	<u>6,755,420</u>
OPERATING LOSS		<u>(6,847,328)</u>	<u>(6,502,891)</u>
OTHER (EXPENSE)/INCOME			
Interest income		3,709	26,036
Impairment on right-of-use asset		(260,616)	-
Gain/(loss) on foreign exchange		20,518	(72,563)
Unrealized loss on derivative warrant liability from financing and convertible note	15	(781,621)	(4,337,049)
Realized loss on exercise of warrants and convertible note	15	(786,407)	(17,557,693)
Amortization of deferred loss	15	-	(27,382,735)
		<u>(1,804,417)</u>	<u>(48,324,003)</u>
LOSS BEFORE TAX		<u>(8,651,745)</u>	<u>(55,826,894)</u>
Tax recovery/(expense)		36,370	(53,654)
LOSS FOR THE PERIOD		<u>\$ (8,615,375)</u>	<u>\$ (55,880,548)</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD			
Fair market value changes in convertible note due to changes in own credit risk		696,553	413,633
		<u>696,553</u>	<u>413,633</u>
LOSS AND OTHER COMPREHENSIVE LOSS FOR THE PERIOD		<u>\$ (7,918,822)</u>	<u>\$ (55,466,915)</u>
LOSS PER SHARE			
Basic and diluted loss per share	20	\$ (0.21)	\$ (0.38)

NEOVASC INC.

Condensed Interim Consolidated Statements of Changes in Equity

(Expressed in U.S. dollars)(Unaudited)

	Notes	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2018		\$ 171,803,816	\$ 23,056,846	\$ (6,643,436)	\$ (224,692,327)	\$ (36,475,101)
Issue of share capital on exercise of options	16(b)	88,918	(88,918)	-	-	-
Issue of share capital on exercise of warrants	16(b)	59,965,429	-	-	-	59,965,429
Share-based payments	20		120,229	-	-	120,229
Transaction with owners during the period		60,054,347	31,311			60,085,659
Loss for the period		-	-	-	(55,880,548)	(55,880,548)
Other comprehensive loss for the period		-	-	413,633	-	413,633
Balance at March 31, 2018		\$ 231,858,163	\$ 23,088,158	\$ (6,229,803)	\$ (280,572,875)	\$ (31,856,357)
Balance at January 1, 2019		\$ 304,460,533	\$ 26,260,806	\$ (7,653,028)	\$ (332,735,195)	\$ (9,666,884)
Issue of share capital on public offering (net of share issuance costs)	16(b)	7,802,417		-	-	7,802,417
Issue of share capital on exercise of warrants	16(b)	1,202,958		-	-	1,202,958
Issue of share capital on exchange of warrants	16(b)	234,173		-	-	234,173
Issue of share capital on conversion of notes	16(b)	4,188,713		-	-	4,188,713
Issue of Broker warrants			315,611			315,611
Share-based payments	19		1,036,148			1,036,148
Transactions with owners during the period		13,428,261	1,351,759	-	-	14,780,020
Loss for the year		-	-	-	(8,615,375)	(8,615,375)
Other comprehensive loss for the period		-	-	696,553	-	696,553
Balance at March 31, 2019		\$ 317,888,794	\$ 27,612,565	\$ (6,956,475)	\$ (341,350,570)	\$ (2,805,686)

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Cash Flows

For three months ended March 31,
(Expressed in U.S. dollars)(Unaudited)

		2019	2018
OPERATING ACTIVITIES			
Loss for the period		\$ (8,615,375)	\$ (55,880,548)
Adjustments for:			
Depreciation	19	144,582	90,338
Share-based payments	19	1,036,148	120,229
Impairment of right-of-use asset		260,616	-
Accrued employee termination expenses		-	455,489
Accretion on collaboration, license and settlement agreements provision		127,095	-
Unrealized loss on derivative liability and convertible note	15	781,621	4,337,049
Realized loss on exercise of warrants and convertible note	15	786,407	17,557,693
Amortization of deferred loss	15	-	27,382,735
Write-down accounts receivable		64,600	-
Income tax (recovery)/expense		(36,370)	53,654
Interest income		(3,709)	(26,036)
		<u>(5,454,385)</u>	<u>(5,909,597)</u>
Net change in non-cash working capital items:			
Accounts receivable		(137,479)	588,916
Inventory		(208,524)	163,852
Prepaid expenses and other assets		(38,965)	8,176
Accounts payable and accrued liabilities		251,030	(69,353)
Payment of amounts due on collaboration, license and settlement agreements		(750,000)	-
		<u>(883,938)</u>	<u>691,591</u>
Income tax and Interest paid and received:			
Income tax received/(paid)		36,370	(53,654)
Interest received		35,130	26,036
		<u>71,500</u>	<u>27,618</u>
Net cash applied to operating activities		<u>(6,266,823)</u>	<u>(5,245,425)</u>
INVESTING ACTIVITIES			
(Increase)/decrease in restricted cash		(9,348)	12,837
Purchase of property, plant and equipment	12	(44,314)	(29,999)
Net cash applied to investing activities		<u>(53,662)</u>	<u>(17,162)</u>
FINANCING ACTIVITIES			
Proceeds from exercise of warrants	16(b)	1,200,400	16,988
Proceeds from private placements and public offerings	16(b)	8,118,030	-
Payment of lease obligation		(125,299)	-
Net cash from financing activities		<u>9,193,131</u>	<u>16,988</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS		<u>2,872,646</u>	<u>(5,245,598)</u>
CASH AND CASH EQUIVALENTS			
Beginning of the year		9,242,809	17,507,157
End of the year		<u>\$ 12,115,455</u>	<u>\$ 12,261,559</u>
Represented by:			
Cash and cash equivalents	6	<u>\$ 12,115,455</u>	<u>\$ 12,261,559</u>

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For three months ended March 31, 2019 and 2018

(Expressed in U.S. dollars)

1. INCORPORATION AND GOING CONCERN

(a) Business Description

Neovasc Inc. (“Neovasc” or the “Company”) is a company incorporated and domiciled in Canada. The Company was incorporated as Medical Ventures Corp. under the Company Act (British Columbia) on November 2, 2000 and was continued under the Canada Business Corporations Act on April 19, 2002. On July 1, 2008, the Company changed its name to Neovasc Inc. Neovasc is the parent company.

The condensed interim consolidated financial statements of the Company as at March 31, 2019 and for the three months ended March 31, 2019 comprise the Company and its subsidiaries, all of which are wholly owned. The Company’s principal place of business is located at Suite 5138 – 13562 Maycrest Way, Richmond, British Columbia, V6V 2J7 and the Company’s registered office is located at Suite 2600 – 595 Burrard Street, Vancouver, British Columbia, V7X 1L3, Canada. The Company’s shares are listed on the Toronto Stock Exchange (TSX:NVCN) and the Nasdaq Capital Market (NASDAQ:NVCN).

Neovasc is a specialty medical device company that develops, manufactures and markets products for the rapidly growing cardiovascular marketplace. Its products include the Neovasc Reducer™ (“Reducer”), for the treatment of refractory angina, which is not currently commercially available in the United States and has been commercially available in Europe since 2015, and the Tiara™ (“Tiara”), for the transcatheter treatment of mitral valve disease, which is currently under clinical investigation in the United States, Canada and Europe.

(b) Going Concern and Uncertainty

As at March 31, 2019, the Company had approximately \$12.1 million in cash and cash equivalents, sufficient cash for approximately six months of operations. The Company will need to obtain additional debt or equity financing in the next twelve months to fund ongoing operations. Given the current nature of the Company’s capital structure, the Company can give no assurance that it will be able to obtain the additional funds needed, on terms agreeable to the Company, or at all. These circumstances indicate the existence of material uncertainty and cast substantial doubt about the Company’s ability to continue as a going concern.

These condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to obtain additional capital in the future and the Company’s ability to continue as a going concern be impaired, material adjustments may be necessary to these consolidated financial statements.

(c) Share Consolidation (reverse stock split)

On September 18, 2018, the Company effected a share consolidation (reverse stock split) of its issued and outstanding Common Shares on the basis of one post-consolidation Common Share for every one hundred pre-consolidation Common Shares. All references in these consolidated financial statements to Common Shares and options have been retroactively adjusted to reflect the share consolidation. The number of 2017 Warrants (as defined below) and aggregate principal amount of Notes (as defined below) were not affected by the consolidation, but the Common Shares issuable upon exercise of the 2017 Warrants or conversion of the Notes will be adjusted proportionally to the share consolidation ratio.

(d) Nasdaq Listing

On January 3, 2019, the Company received written notification (the “Market Value Notification Letter”) from the Nasdaq Listing Qualifications Department notifying the Company that it was not in compliance with the \$35 million minimum market value requirement set forth in the Nasdaq Marketplace Rules. The Market Value Notification Letter does not impact the Company’s listing on the Nasdaq at this time. In accordance with Nasdaq Listing Rule 5810(c)(3)(C), the Company has been provided 180 calendar days, or until July 2, 2019, to regain compliance. The Company intends to monitor the market value of its listed securities between now and July 2, 2019.

On January 14, 2019, the Company received written notification (the “Bid Price Notification Letter”) from the Nasdaq Listing Qualifications Department notifying the Company that it was not in compliance with the \$1.00 minimum bid price requirement set forth in the Nasdaq Marketplace Rules. The Bid Price Notification Letter does not impact the Company’s listing on the Nasdaq at this time. In accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company has been provided 180 calendar days, or until July 15, 2019, to regain compliance. The Company intends to monitor the closing bid price of its common shares between now and July 15, 2019.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For three months ended March 31, 2019 and 2018

(Expressed in U.S. dollars)

1. INCORPORATION AND GOING CONCERN (continued)

(d) Nasdaq Listing (continued)

In the event the Company does not regain compliance with the Nasdaq minimum market value or minimum bid price rules within the prescribed compliance periods, the Company may be eligible for additional time to regain compliance or may face delisting. Nasdaq also has broad discretionary public interest authority that it can exercise to apply additional or more stringent criteria for the continued listing of the Common Shares, or suspend or delist Common Shares even if the Common Shares meet all enumerated criteria for continued listing on the Nasdaq. The Nasdaq could use this discretionary authority at any time to delist the Common Shares. There can be no assurance that Nasdaq will not exercise such discretionary authority. In addition, there is no assurance that the Company will be able to regain compliance with the minimum bid price and minimum market value requirements prior to expiration of the prescribed compliance periods, or if it does, that the Company will be able to maintain such compliance.

2. BASIS OF PREPARATION

(a) Statement of compliance with IFRS

These condensed interim consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), using the accounting policies consistent with the Company's annual consolidated financial statements for the year ended December 31, 2018 and 2017. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2018 and 2017 and the accompanying notes included in those financial statements. For a full description of accounting policies, refer to the audited annual consolidated financial statements of the Company for the year ended December 31, 2018 and 2017.

The results for the three months ended March 31, 2019 may not be indicative of the results that may be expected for the full year or any other period.

The condensed interim consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, Neovasc Medical Inc., Neovasc Tiara Inc., Neovasc GmbH, Neovasc (US) Inc., Neovasc Management Inc., Neovasc Medical Ltd., and B-Balloon Ltd. (which is in the process of being voluntarily liquidated). All intercompany balances and transactions have been eliminated upon consolidation.

(b) Presentation of financial statements

The Company has elected to present the 'Statement of Comprehensive Income' in a single statement.

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent annual consolidated financial statements for the year ended December 31, 2018, except for the following:

Adoption of new standards

Accounting standard issued and effective January 1, 2019

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognized in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Company has elected to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being January 1, 2019.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For three months ended March 31, 2019 and 2018

(Expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The Company performed an impairment review on the right-of-use assets at the date of initial application.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 10%.

The Company has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at December 31, 2018 to the lease liabilities recognized at January 1, 2019:

Total operating lease commitments disclosed at December 31, 2018	\$ 1,431,188
Recognition exemptions:	
Leases of low value assets	-
Leases with remaining lease term of less than 12 months	-
Variable lease payments not recognized	-
Operating lease liabilities before discounting	1,431,188
Discounted using incremental borrowing rate	(174,323)
Operating lease liabilities	1,256,865
Total lease liabilities recognized under IFRS 16 at January 1, 2019	\$ 1,256,865

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability on the balance sheet.

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available. If the interest rate implicit in the lease is not readily available, the Company discounts using the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

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(Expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included under non-current assets and lease liabilities have been included under current and non-current liabilities.

IFRIC 23 – Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments. This interpretation specifies that if an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, it shall determine the tax result consistently with the tax treatment used or planned to be used in its income tax filing. If it is not probable, the entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which one the entity expects to better predict the resolution of the uncertainty:

- Most likely amount: single most likely amount in a range of possible outcomes;
- Expected value: sum of the probability-weighted amounts in a range of possible outcomes.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019 with earlier application permitted. The Company has adopted IFRIC 23 and it has not had a significant impact.

4. MANAGING CAPITAL

The Company's objectives, when managing capital, are to safeguard cash as well as maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations and deploy capital to grow its business. In the definition of capital, the Company includes equity and the convertible debt. There has been no change in the definition since the prior year.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to business growth opportunities and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new shares, new units or new debt (secured, unsecured, convertible and/or other types of available debt instruments). For the three months ended March 31, 2019 and 2018 there were no changes in the Company's capital management policy.

The capital of the Company is comprised of:

	March 31, 2019	December 31, 2018
Convertible Note	\$ 11,253,670	\$ 14,617,336
Equity	(2,805,686)	(9,666,884)
Capital	\$ 8,447,984	\$ 4,950,452

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For three months ended March 31, 2019 and 2018

(Expressed in U.S. dollars)

5. FINANCIAL RISK MANAGEMENT

(a) Fair value estimation

The fair value hierarchy establishes three levels to classify fair value measurements based upon the observability of significant inputs used in the valuation techniques. The three levels of the fair value hierarchy are described below:

Level 1 | Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 | Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 | Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs)

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy as at March 31, 2019 and December 31, 2018. As required by IFRS 13, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

As at December 31, 2018:

	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss				
Convertible Note	\$ -	\$ -	\$ 14,617,336	\$ 14,617,336
Derivative warrant financial liability from financing	\$ -	\$ -	\$ 190,303	\$ 190,303

As at March 31, 2019:

	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss				
Convertible Note	\$ -	\$ -	\$ 11,253,670	\$ 11,253,670

The carrying amounts of financial assets and financial liabilities in each category are as follows:

	Note	March 31, 2019	December 31, 2018
Amortized cost			
Cash and cash equivalents	6	\$ 12,115,455	\$ 9,242,809
Accounts receivable	7	720,022	647,143
Restricted cash	10	449,084	439,736
		\$ 13,284,561	\$ 10,329,688
Other financial liabilities at amortized cost			
Accounts payable and accrued liabilities (current)	13	\$ 4,144,908	\$ 4,610,560
Accounts payable and accrued liabilities (non-current)	13	2,335,756	2,241,979
Financial liabilities at fair value through profit and loss			
Convertible Note (current)	15	726,671	1,423,224
Convertible Note (non-current)	15	10,526,999	13,194,112
Derivative warrant liability from financing (non-current)	15	-	190,303
		\$ 17,734,334	\$ 21,660,178

The carrying amounts of cash and cash equivalents, accounts receivable, restricted cash and accounts payable and accrued liabilities are considered a reasonable approximation of fair value due to their short-term nature.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For three months ended March 31, 2019 and 2018

(Expressed in U.S. dollars)

5. FINANCIAL RISK MANAGEMENT (continued)

(b) Foreign exchange risk

A portion of the Company's revenues are derived from product sales in Europe, denominated in Euros. Management has considered the stability of the foreign currency and the impact a change in the exchange rate may have on future earnings during the forecasting process. The Euro represents approximately 36% of the revenue for the three months ended March 31, 2019 (three months ended March 31, 2018: 16%). A 10% change in the foreign exchange rates for the Euro for foreign currency denominated accounts receivable will impact net income as at March 31, 2019 by approximately \$21,000 (as at March 31, 2018: \$nil), and a similar change in foreign currency denominated accounts payable, which are denominated in Canadian dollars and Euros will impact net income by approximately \$53,454 and \$62,191, respectively, as at March 31, 2019 (as at March 31, 2018: \$28,624 and \$24,861, respectively). A similar change in foreign currency denominated cash and cash equivalents, and restricted cash, which are denominated in Canadian dollars and Euros will impact net income by approximately \$68,493 and \$52,560, respectively, as at March 31, 2019 (as at March 31, 2018: \$92,347 and \$58,550, respectively). The Company does not hedge its foreign exchange risk.

(c) Interest rate risk

The Company is not exposed to material cash flow interest rate risk on fixed rate cash balances, and short-term accounts receivable, accounts payable, and convertible note that do not accrue interest.

(d) Liquidity risk

As at March 31, 2019, the Company had \$12,115,455 in cash and cash equivalents as compared to cash and cash equivalents of \$9,242,809 at December 31, 2018. The Company is dependent on the profitable commercialization of its products or obtaining additional debt or equity financing to fund ongoing operations until profitability is achieved.

The Company monitors its cash flow on a monthly basis and compares actual performance to the budget for the period. After receipt of the net proceeds of approximately \$3.9 million from the underwritten public offering of Common Shares on February 28, 2019 (the "February 2019 Financing") and \$4.2 million from the underwritten public offering of Common Shares on March 15, 2019 (the "March 2019 Financing"), the Company expects that its cash on hand as at March 31, 2019 is sufficient to sustain operations until approximately September 2019 at the current burn rate. The Company may obtain additional debt or equity financing in future periods. Further into the future the Company is dependent on the profitable commercialization of its products or obtaining additional debt or equity financing to fund ongoing operations until profitability is achieved.

Trades payables were aged as follows as at March 31, 2019 and do not include accrued liabilities. All trades payables are current liabilities:

	<u>Total</u>
Current	\$ 1,381,895
31-60 days	568,896
Over 60 days	36,617
	<u>\$ 1,987,408</u>

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as at March 31, 2019:

	<u>Within One Year</u>	<u>Between One and Five Years</u>
Collaboration, license and settlement agreements (undiscounted)	\$ 1,400,000	\$ 2,500,000
	<u>\$ 1,400,000</u>	<u>\$ 2,500,000</u>

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For three months ended March 31, 2019 and 2018

(Expressed in U.S. dollars)

5. FINANCIAL RISK MANAGEMENT (continued)

(e) Credit risk

Credit risk arises from the possibility that the entities to which the Company sells products may experience financial difficulty and be unable to fulfill their contractual obligations. This risk is mitigated by proactive credit management policies that include regular monitoring of the debtor's payment history and performance. The Company does not require collateral from its customers as security for trade accounts receivable but may require certain customers to pay in advance of any work being performed or product being shipped.

The maximum exposure, if all of the Company's customers were to default at the same time is the full carrying value of the trade accounts receivable as at March 31, 2019 is \$682,691 (as at December 31, 2018: \$637,421). As at March 31, 2019, the Company had \$238,623 (as at December 31, 2018: \$311,642) of trade accounts receivable that were overdue, according to the customers' credit terms. During the three months ended March 31, 2019 the Company wrote down \$64,600 of accounts receivable owed by customers (three months ended March 31, 2018: \$nil).

The Company may also have credit risk related to its cash and cash equivalents and restricted cash, with a maximum exposure of \$12,564,539 as at March 31, 2019 (as at December 31, 2018: \$9,682,545). The Company minimizes its risk to cash and cash equivalents and restricted cash by maintaining the majority of its balances with Canadian Chartered Banks.

6. CASH AND CASH EQUIVALENTS

	March 31, 2019	December 31, 2018
Cash held in:		
United States dollars	\$ 11,354,010	\$ 8,173,582
Canadian dollars	235,847	483,730
Euros	525,598	585,497
	<u>\$ 12,115,455</u>	<u>\$ 9,242,809</u>

7. ACCOUNTS RECEIVABLE

	March 31, 2019	December 31, 2018
Trade accounts receivable	\$ 682,691	\$ 637,421
Other accounts receivable	37,331	9,722
	<u>\$ 720,022</u>	<u>\$ 647,143</u>

All amounts are short-term. The aging analysis of trade receivables is as follows:

	March 31, 2019	December 31, 2018
Not past due	\$ 440,557	\$ 361,469
Past due 0 - 30 days	96,502	18,614
30 - 60 days	95,721	-
60 - 90 days	-	54,428
90 - 120 days	-	-
Over 120 days	86,400	238,600
Loss Allowance	(36,489)	(35,690)
	<u>\$ 682,691</u>	<u>\$ 637,421</u>

All of the Company's trade and other receivables have been reviewed for impairment. During the three months ended March 31, 2019, the Company wrote off \$64,600 of accounts receivable (three months ended March 31 2018: \$nil).

NEOVASC INC.

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8. INVENTORY

	March 31, 2019	December 31, 2018
Raw materials	\$ 264,697	\$ 242,300
Work in progress	-	2,435
Finished goods	202,569	14,007
	<u>\$ 467,266</u>	<u>\$ 258,742</u>

During the three months ended March 31, 2019 the Company did not write down any inventory. During the three months ended March 31, 2019, \$143,994 of inventory was expensed in cost of goods sold (three months ended March 31, 2018: \$87,393).

9. PREPAID EXPENSES AND OTHER ASSETS

	March 31, 2019	December 31, 2018
Prepaid expenses	\$ 41,250	\$ -
Prepaid insurance	178,249	190,849
Deposits on rental agreements	111,600	276,500
Other prepaid expenses and other assets	134,206	123,887
	<u>\$ 465,305</u>	<u>\$ 591,236</u>

10. RESTRICTED CASH

	March 31, 2019	December 31, 2018
Restricted cash	\$ 449,084	\$ 439,736

Restricted cash represents C\$600,000 security held by a Canadian Chartered Bank as a guarantee for the Company's same day electronic processing facility and corporate credit card facility.

11. RIGHT OF USE ASSET

COST	Total
Balance at January 1, 2019, on adoption of IFRS 16	\$ 1,421,760
Impairment of right-of-use asset	260,616
Balance as at March 31, 2019	<u>\$ 1,161,144</u>
ACCUMULATED DEPRECIATION	
Balance at January 1, 2019, on adoption of IFRS 16	-
Depreciation for the period	79,745
Balance as at March 31, 2019	<u>\$ 79,745</u>
NET BOOK VALUE	
As at January 1, 2019, on adoption of IFRS 16	\$ 1,421,760
As at March 31, 2019	<u>\$ 1,081,399</u>

The Company's right-of-use asset mainly relates to the lease of buildings.

NEOVASC INC.

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11. RIGHT OF USE ASSET (continued)

The Company entered into an agreement for additional office space in September 2014 in Richmond, Canada. The agreement did not contain any contingent rent clauses, or purchase options or escalation clauses. The term of the lease was 36 months commencing on October 1, 2014. The lease contained an option to renew for an additional 36 months. In February 2017, the Company renewed the lease and added additional office premises. The term of the combined lease is 60 months commencing June 1, 2017. The amended agreement does not contain any contingent rent clauses, or purchase options or escalation clauses.

The Company entered into an agreement for additional office space in September 2014 in Minneapolis. The agreement did not contain any contingent rent clauses, or purchase options or escalation clauses. The original term of the lease was 66 months commencing on September 1, 2014. Additional office space was added in July 2015 in Minneapolis. The term of the combined lease is 69 months commencing on July 1, 2015. The lease contains an option to renew for an additional 36 months.

The Company entered into an agreement for additional office space in December 2016 in Richmond, Canada. The agreement does not contain any contingent rent clauses, renewal or purchase options or escalation clauses. The term of the lease is 24 months commencing on December 19, 2016. In December 2018, the Company renewed the lease for another 24 months commencing on Dec 19, 2018.

The Company entered into an agreement for additional office space in June 2018 in Richmond, Canada. The agreement does not contain any contingent rent clauses, purchase options or escalation clauses. The term of the lease is 36 months commencing on August 1, 2018. The lease contains an option to renew for an additional 24 months.

NEOVASC INC.

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12. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold improvements	Production & development equipment	Computer hardware	Computer software	Office equipment	Total
COST								
Balance at January 1, 2018	\$ 249,493	\$ 438,471	\$ 169,938	\$ 1,649,728	\$ 543,922	\$ 612,273	\$ 316,085	\$ 3,979,910
Additions during the year	-	-	-	149,583	-	40,799	-	190,382
Disposals during the year	(249,493)	(438,471)	-	(310,353)	-	-	-	(998,317)
Balance as at December 31, 2018	\$ -	\$ -	\$ 169,938	\$ 1,488,958	\$ 543,922	\$ 653,072	\$ 316,085	\$ 3,171,975
Additions during the period	-	-	-	14,782	-	29,532	-	44,314
Balance as at March 31, 2019	\$ -	\$ -	\$ 169,938	\$ 1,503,740	\$ 543,922	\$ 682,604	\$ 316,085	\$ 3,216,289
ACCUMULATED DEPRECIATION								
Balance at January 1, 2018	\$ -	\$ 53,564	\$ 66,416	\$ 998,944	\$ 386,095	\$ 572,017	\$ 217,694	\$ 2,294,730
Depreciation for the year	-	7,698	23,439	211,908	47,348	74,055	19,678	384,126
Disposals during the year	-	(61,262)	-	(259,247)	-	-	-	(320,509)
Balance as at December 31, 2018	\$ -	\$ -	\$ 89,855	\$ 951,605	\$ 433,443	\$ 646,072	\$ 237,372	\$ 2,358,347
Depreciation for the period	-	-	4,533	41,410	8,286	6,672	3,936	64,836
Balance as at March 31, 2019	\$ -	\$ -	\$ 94,388	\$ 993,015	\$ 441,729	\$ 652,744	\$ 241,308	\$ 2,423,184
NET BOOK VALUE								
As at December 31, 2018	\$ -	\$ -	\$ 80,083	\$ 537,353	\$ 110,479	\$ 7,000	\$ 78,713	\$ 813,628
As at March 31, 2019	\$ -	\$ -	\$ 75,550	\$ 510,725	\$ 102,193	\$ 29,860	\$ 74,777	\$ 793,105

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13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2019	December 31, 2018
Current accounts payable and accrued liabilities		
Trade payables	\$ 1,987,408	\$ 898,711
Accrued liabilities	413,307	1,117,673
Accrued vacation	159,360	142,730
Accrued employee termination expenses	261,788	373,171
Other accounts payable	151,948	190,496
Collaboration, license and settlement agreements provision	1,171,097	1,887,779
Total current accounts payable and accrued liabilities	<u>4,144,908</u>	<u>4,610,560</u>
Non-current accrued liabilities		
Non-current collaboration, license and settlement agreements provision	2,335,756	2,241,979
	<u>2,335,756</u>	<u>2,241,979</u>
Total accounts payable and accrued liabilities	<u>\$ 6,480,664</u>	<u>\$ 6,852,539</u>

Included in accounts payable and accrued liabilities are \$1,468,808 related to settlement charges as part of a collaboration agreement and \$2,038,045 related to a settlement provision (see Note 22). This represents the calculated net present value of the amounts set out per the agreement with payments due over the next three years.

14. LEASE LIABILITY

	Total
Balance at January 1, 2019, on adoption of IFRS 16	\$ 1,256,865
Interest expense	31,422
Lease payments	(125,299)
	<u>\$ 1,162,988</u>
Lease Liability, current	\$ 403,191
Lease Liability, non-current	\$ 759,797
The maturity analysis of the undiscounted contractual balances of the lease liabilities is as follows:	
In one year or less	\$ 519,192
In more than one year, but not more than five years	882,344
In more than five years	-
	<u>\$ 1,401,536</u>
The amounts recorded for the three months ended March 31, 2019 in relation to Short-term leases and Low-value leases are as follow:	
Short-term leases	\$ -
Low-value leases	\$ -
	<u>\$ -</u>

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

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15. DERIVATIVE WARRANT LIABILITY FROM FINANCING AND CONVERTIBLE NOTE

(a) Derivative Warrant Liability from Financing

On November 17, 2017, Neovasc completed an underwritten public offering (the "2017 Public Transaction") of 6,609,588 Series A units (the "Series A Units") and 19,066,780 Series B units (the "Series B Units") of the Company, at a price of \$1.46 per Unit for gross proceeds of \$37,487,497 before deducting the underwriting discounts and commissions and other estimated offering costs.

Each Series A Unit was comprised of:

- (i) one Common Share
- (ii) one Series A Common Share purchase warrant of the Company at an exercise price of \$1.61 per Series A Warrant Share for a period of five years following issuance (each, a "Series A Warrant"),
- (iii) one Series B Common Share purchase warrant of the Company at an exercise price of \$1.61 per Series B Warrant Share for a period of two years following issuance (each, a "Series B Warrant"); and
- (iv) 0.40 Series C Warrant of the Company to purchase a unit at an exercise price of \$1.46 per unit for a period of two years following issuance (each, a "Series C Unit") comprised of one Common Share, one Series A Warrant and one Series B Warrant.

Each Series B Unit was comprised of:

- (i) either one Common Share or one Series D Common Share purchase warrant of the Company (each, a "Series D Warrant") at an exercise price of \$1.46 per Series D Warrant Share, all of which were pre-funded except for a nominal exercise price of \$0.01 per Series D Warrant Share for a period of five years following issuance,
- (ii) one Series A Warrant,
- (iii) one Series B Warrant,
- (iv) 0.40 Series C Warrant, and
- (v) 1.1765 Series F Common Share purchase warrant of the Company at an exercise price of \$1.61 per Series F Warrant Share for a period of two years following issuance (each, a "Series F Warrant").

154,930 Common Shares and 3,573,830 Series D Warrants were issued as part of the Series B Unit. Since initial issuance and during the period up to December 31, 2018, all of the 3,573,830 Series D Warrants were exercised for gross proceeds of \$35,738 and 35,738 Common Shares were issued from treasury. All the warrants (collectively, the "2017 Warrants") issued pursuant to the 2017 Public Transaction and the 2017 Private Placement (as defined below) included various price adjustment clauses, some of which caused the number of shares to be issued upon exercise to be variable, and therefore do not meet the fixed for fixed test under IAS 32 – Financial instruments; presentation. Accordingly, the warrants have been accounted for as derivative financial liabilities and measured at fair value through profit and loss ("FVTPL"). The fair values of the warrants were calculated using a binomial option pricing model and have been classified as level 3 in the fair value hierarchy.

The total fair value of the warrants issued in connection with the Public Transaction, together with the Series E Warrants (as defined below) issued in connection with the Private Transaction (as defined below), was \$89,470,273 which exceeded the transaction price giving rise to a loss of \$45,132,259. Since the fair values of the derivatives are not determined using a valuation that only uses data from observable markets, the loss on initial recognition has been deferred and will be recognized in income over the expected term of the instruments on a straight-line basis depending on the term of the warrants.

(b) Convertible Note

On November 17, 2017, the Company also completed a brokered private placement (the "2017 Private Placement" and together with the Public Transaction the "2017 Financings") for the sale of \$32,750,000 aggregate principal amount of senior secured convertible notes of the Company (the "Notes") and Series E warrants (the "Series E Warrants") to purchase one Common Share per Series E Warrant for gross proceeds of \$27,837,500.

The Notes were issued with an original issue price of \$850 per \$1,000 principal amount of note. The Notes have an 18-month term and carry an interest rate of 0.0% per annum (increasing to 15% upon an event of default) from the closing date of the Private Transaction. On September 12, 2018, the Company and the holders of Notes amended certain terms of the Notes, including a one-year extension of the maturity date of the Notes from May 17, 2019 until May 17, 2020 and certain other amendments. Upon any event of a default, the interest rate applicable to the Notes would automatically be increased to 15% per annum. Interest on the Notes, as applicable, will commence accruing on the date of issue, will be computed on the basis of a 360-day year and twelve 30-day months and became payable in cash on January 1, 2018 and on the first day of each calendar quarter thereafter up to, and including, the maturity date.

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15. DERIVATIVE WARRANT LIABILITY FROM FINANCING AND CONVERTIBLE NOTE (continued)

(b) Convertible Note (continued)

The conversion option contained within the Notes contains similar price adjustment characteristics to certain of the warrants, which precludes the Notes from being recognized within equity. The Notes contain a future-priced conversion mechanism that allows the holder of a Note to replace the conversion price then in effect with a price (the "Alternate Conversion Price") that is 85% of the lowest volume weighted average price ("VWAP") of the Common Shares during the ten consecutive trading day period ending and including the date of delivery of the applicable conversion notice. The Notes are also subject to full ratchet anti-dilution provisions in certain circumstances.

Accordingly, the Company has elected to measure the Notes at FVTPL. The Series E Warrants are also classified as derivative financial liabilities and measured at FVTPL. The fair values of the warrants were calculated using a binomial option pricing model and have been classified as level 3 in the fair value hierarchy. The fair value of the convertible debt was \$26,100,900 which exceeded the transaction price giving rise to a loss of \$5,113,917. Since the fair value of the convertible debt is not determined using a valuation that only uses data from observable markets, the loss on initial recognition has been deferred and will be recognized in income over the expected term of the instrument. As at March 31, 2019 the loss on initial recognition has been fully amortized.

(c) Warrants and Convertible Notes Model

The 2017 Warrants were accounted for based on the level 3 fair value estimate of Series A Warrants, Series B Warrants, Series C Warrants, Series D Warrants, Series E Warrants and Series F Warrants by using a binomial option pricing model.

The Notes were accounted for based on the level 3 fair value estimate of the notes based on a binomial tree model.

Key assumptions used in the model at December 31, 2017 and 2018 and as at March 31, 2019 are summarized below:

Valuation Date	December 31, 2017	December 31, 2018	March 31, 2019
Price of Common Shares	\$ 60.00	\$ 0.6030	\$ 0.4206
Dividend Yield	0%	0%	0%
Historical volatility of Common Shares	121.70%	141.96%	148.45%
Historical volatility of index	14.43%	15.37%	15.00%
Volatility input	68.07%	78.67%	81.72%
Risk-free rate	2.20%	2.52%	2.24%
Credit spread	34.24%	24.51%	35.10%

NEOVASC INC.

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15. DERIVATIVE WARRANT LIABILITY FROM FINANCING AND CONVERTIBLE NOTE (continued)

(c) Warrants and Convertible Notes Model (continued)

The carrying amounts for the derivative warrant liability from financing are as follows:

	Series A Units	Series B Units	Series E Warrants	Total
Fair value, November 17, 2017	\$ 13,139,650	\$ 67,810,835	\$ 8,519,788	\$ 89,470,273
Add: Deferred loss	(7,054,787)	(36,408,201)	(1,669,271)	(45,132,259)
Amortization of deferred loss	390,379	2,067,557	41,732	2,499,668
Less:				
Fair value adjustment on exercised warrants	-	(511,122)	-	(511,122)
Exercise of Series D Warrants	-	(1,108,306)	-	(1,108,306)
Fair value adjustment, December 31, 2017	(1,542,457)	(2,911,914)	(3,934,853)	(8,389,224)
Balance, Derivative financial liability December 31, 2017	\$ 4,932,785	\$ 28,938,849	\$ 2,957,396	\$ 36,829,030
Add:				
Amortization of deferred loss	6,664,408	34,340,644	1,627,539	42,632,591
Less:				
Exercise of 1,698,841 Series D Warrants	-	(1,004,185)	-	(1,004,185)
Exercise of 11,170,788 Series B Warrants	(303,919)	(6,250,110)	-	(6,554,029)
Exercise of 21,041,660 Series F Warrants	-	(26,552,270)	-	(26,552,270)
Exercise of 14,505,580 Series B Warrants	(11,614,224)	(14,820,745)	-	(26,434,969)
Exercise of 8,951,780 Series C Warrants	(833,987)	(3,371,375)	-	(4,205,362)
Exercise of 1,389,846 Series F Warrants	-	(2,532,855)	-	(2,532,855)
Exercise of 500,000 Series C Warrants	-	(253,887)	-	(253,887)
Fair value adjustment, December 31, 2018	1,190,630	(8,411,543)	(4,512,848)	(11,733,761)
Balance, Derivative financial liability December 31, 2018	\$ 35,693	\$ 82,523	\$ 72,087	\$ 190,303
Less:				
Exercise of 822,192 Series C Warrants	(5,638)	-	-	(5,638)
Fair value adjustment, March 31, 2019	(5,575)	(5,253)	(6,677)	(17,505)
Cancellation of 35,950,340 Series A Warrants	(24,480)	(77,270)	-	(101,750)
Cancellation of 22,431,506 Series E Warrants	-	-	(65,410)	(65,410)
Balance, derivative warrant liability from financing March 31, 2019	\$ -	\$ -	\$ -	\$ -

NEOVASC INC.

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15. DERIVATIVE FINANCIAL LIABILITY FROM FINANCING AND CONVERTIBLE NOTE (continued)

(c) Warrants and Convertible Notes Model (continued)

The carrying amounts for the Convertible Notes are as follows:

	Convertible Notes
Fair value, November 17, 2017	\$ 26,100,900
Add: Deferred loss	(5,113,917)
Amortization of deferred loss	852,319
Fair value adjustment, December 31, 2017	(1,831,743)
Balance, Convertible Notes December 31, 2017	\$ 20,007,559
Add:	
Amortization of deferred loss	4,261,598
Less:	
Exercise of 5,567,500 Convertible Notes	(5,146,924)
Exercise of 1,772,500 Convertible Notes	(1,536,596)
Exercise of 10,300,000 Convertible Notes	(13,872,312)
Fair value adjustment, December 31, 2018	10,904,011
Balance, Convertible Notes December 31, 2018	\$ 14,617,336
Less:	
Exercise of 4,285,000 Convertible Notes	(4,188,713)
Fair value adjustment, March 31, 2019	825,047
Balance, Convertible Notes March 31, 2019	\$ 11,253,670
Convertible Notes, current	\$ 726,671
Convertible Notes, non-current	\$ 10,526,999

16. SHARE CAPITAL

All Common Shares are equally eligible to receive dividends and the repayment of capital and represent one vote at shareholders' meetings. All preferred shares have no voting rights at shareholders' meetings but on liquidation, winding-up or other distribution of the Company's assets are entitled to participate in priority to Common Shares. There are no preferred shares issued and outstanding.

(a) Authorized

Unlimited number of Common Shares without par value.

Unlimited number of preferred shares without par value.

NEOVASC INC.

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16. SHARE CAPITAL (continued)

(b) Issued and outstanding

All share and per share amounts have been adjusted to retroactively reflect the impact of the September 18, 2018 reverse stock split on a 1 for 100 basis.

	Common Shares		Contributed Surplus
	Number	Amount	
Balance, January 1, 2018	1,029,156	\$ 171,803,816	\$ 23,056,846
Common Shares issued from exercise of Series B Warrants (iii)	13,152,807	54,119,300	-
Common Shares issued from exercise of Series C Warrants (iv)	94,518	15,854,206	-
Common Shares issued from exercise of Series D Warrants (v)	16,988	1,021,183	-
Common Shares issued from exercise of Series F Warrants (vi)	2,957,397	42,990,737	-
Common Shares issued from exercise of Convertible Notes (vii)	10,765,832	18,582,374	-
Common Shares issued for cash on exercise of options	505	88,917	(88,917)
Share-based payments	-	-	3,292,877
Balance, December 31, 2018	28,017,203	\$ 304,460,533	\$ 26,260,806
Common Shares issued from public offerings (viii)	22,222,222	7,802,417	315,611
Common Shares issued from exercise Series B Warrants (ix)	2,233,347	16,931	-
Common Shares issued from exercise of Series C Warrants (x)	8,222	1,186,027	-
Common Shares issued from exercise of Convertible Notes (xi)	9,007,886	4,188,713	-
Common Shares issued from exchange of Series A and Series E Warrants (xii)	496,236	234,173	-
Share-based payments	-	-	1,036,148
Balance, March 31, 2019	61,985,116	\$ 317,888,794	\$ 27,612,565

- (i) On November 17, 2017, the Company completed an underwritten public offering of 6,609,588 Series A Units and 19,066,780 Series B Units, at a price of \$1.46 per Unit for gross proceeds of \$37,487,497. No amount has been recognized with respect to the Common Shares within equity because the fair value of the derivative instruments issued (being the warrants which form part of the units issued) exceeded the cash proceeds received.
- (ii) On December 27, 2017, 1,874,989 of the Series D Warrants that were issued as part of the Series B Units were exercised for cash proceeds of \$18,750. In addition, the fair value of the related derivative liability of \$1,108,307 (see Note 15) was recognized within equity upon exercise.
- (iii) During the twelve months ended December 31, 2018, 13,152,807 Common Shares were issued on the exercise of 35,128,148 Series B Warrants. The related derivative liability of \$32,988,998 (see Note 15) was derecognized at the dates of exercise.
- (iv) During the twelve months ended December 31, 2018, of the 10,273,972 Series C Warrants initially granted, 9,451,780 were exercised for 94,518 Common Shares, 9,451,780 Series A Warrants and 9,451,780 Series B Warrants and cash proceeds of \$13,799,659. The related derivative financial liability of \$4,459,249 (see Note 15) was derecognized at the dates of exercise.
- (v) During the twelve months ended December 31, 2018, 16,988 Common Shares were issued for the exercise of 1,698,841 of the Series D Warrants that were issued as part of the Series B Units for cash proceeds of \$16,988. The related derivative financial liability of \$1,004,195 was derecognized (see Note 15) at the date of exercise.
- (vi) During the twelve months ended December 31, 2018, 2,957,397 Common Shares were issued on the exercise of the 22,431,506 Series F Warrants. The related derivative financial liability of \$29,085,125 (see Note 15) was derecognized at the dates of exercise.
- (vii) During the twelve months ended December 31, 2018, 10,765,832 Common Shares were issued on the conversion of \$17,640,000 of aggregate principal amount of Notes. The \$20,555,832 aggregate principal amount of Notes (see Note 15) was derecognized at the date of exercise.

NEOVASC INC.

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16. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

- (viii) During the three months ended March 31, 2019, 22,222,222 Common Shares were issued for gross proceeds of \$10,000,000 less \$1,270,000 in underwriting commission, a \$315,611 fair value charge for 1,444,444 Broker Warrants issued (see Note 16(e)) and \$611,970 in other share issuance costs.
- (ix) During the three months ended March 31, 2019, 2,233,347 Common Shares were issued on the exercise of 822,192 Series B Warrants. The related derivative liability of \$16,931 (see Note 15) was derecognized at the dates of exercise.
- (x) During the three months ended March 31, 2019, the remaining 822,192 Series C Warrants were exercised for 8,222 Common Shares, 822,192 Series A Warrants and 822,192 Series B Warrants and cash proceeds of \$1,200,400. The related derivative financial liability of \$5,638 (see Note 15) was derecognized at the dates of exercise.
- (xi) During the three months ended March 31, 2019, 9,007,886 Common Shares were issued on the conversion of \$4,285,000 of aggregate principal amount of Notes. The \$4,188,713 aggregate principal amount of Notes (see Note 15) was derecognized at the date of exercise.
- (xii) During the three months ended March 31, 2019, the Company entered into exchange agreements with the holders of the remaining Series A Warrants and Series E Warrants to issue 496,236 common shares for the surrender and cancellation of all 35,950,340 Series A Warrants and all 22,431,506 Series E Warrants outstanding on the basis of 0.0085 of a Common Share for each Warrant.

(c) Stock options

The Company adopted an equity-settled stock option plan under which the directors of the Company may grant options to purchase Common Shares to directors, officers, employees and service providers (the "optionees") of the Company on terms that the directors of the Company may determine within the limitations set forth in the stock option plan. Effective June 4, 2018, at the Annual General Meeting ("AGM"), the board of directors and shareholders of the Company approved an amendment to the Company's incentive stock option plan to increase the number of options available for grant under the plan to 15% of the number of Common Shares of the Company outstanding at any time.

Options under the Company's stock option plan granted to directors, officers and employees vest immediately on the grant date, unless a vesting schedule is specified by the board. The directors of the Company have discretion within the limitations set forth in the stock option plan to determine other vesting terms on options granted to directors, officers, employees and others. The minimum exercise price of a stock option cannot be less than the applicable market price of the Common Shares on the date of the grant and the options have a maximum life of ten years from the date of grant. The Company also assumed options from the acquisition of Neovasc Medical Ltd. and B-Balloon Ltd. which were not issued under the Company's stock option plan. The following table summarizes stock option activity for the respective years as follows:

	Number of options	Weighted average exercise price	Average remaining contractual life (years)
Options outstanding, January 1, 2018	57,739	\$ 384.90	2.28
Granted	3,660,530	3.03	
Exercised	(499)	0.73	
Forfeited	(12,027)	173.69	
Expired	(8,091)	181.13	
Options outstanding, December 31, 2018	3,697,652	\$ 7.58	7.88
Options exercisable, December 31, 2018	1,462,535	\$ 12.74	7.62
Granted	5,612,000	0.41	
Exercised	-	-	
Forfeited	(18,200)	5.28	
Expired	-	-	
Options outstanding, March 31, 2019	9,291,452	3.29	7.78
Options exercisable, March 31, 2019	2,885,554	7.30	7.66

NEOVASC INC.

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16. SHARE CAPITAL (continued)

(c) Stock options (continued)

The following table lists the options outstanding as at March 31, 2019 by exercise price:

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
\$0.41	5,612,000	7.98	1,403,000	7.98
\$0.88	893,000	7.67	299,666	7.67
\$2.72	2,688,188	7.50	1,125,572	7.50
\$2.73-\$63.00	54,664	6.85	18,255	6.85
\$63.01-\$911.51	43,600	1.42	39,061	1.28
	9,291,452		2,885,554	

The following table lists the options outstanding as at December 31, 2018 by exercise price:

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
\$0.88	899,000	7.92	299,666	7.92
\$2.72	2,710,550	7.75	1,125,572	7.75
\$6.00-\$63.00	44,200	7.06	-	-
\$63.01-\$892	43,902	1.65	37,297	1.45
	3,697,652		1,462,535	

During the three months ended March 31, 2019, the Company recorded \$1,036,148, as compensation expense for share-based compensation awarded to eligible optionees (three months ended March 31, 2018: \$120,229). The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options at each measurement date using the following weighted average assumptions:

Weighted average fair value	\$	0.36	\$	1.64
Weighted average exercise price	\$	0.41	\$	3.03
Weighted average share price at grant	\$	0.41	\$	3.03
Dividend yield		nil		nil
Volatility		111%		72%
Risk-free interest rate		1.51%		2.24%
Expected life		4 years		4 years
Forfeiture rate		7.00%		7.00%

NEOVASC INC.

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16. SHARE CAPITAL (continued)

(d) Warrants

The following table lists the number of warrants issued on November 17, 2017 as well as the number issued, exercised, and exchanged since then and the remaining warrants outstanding at March 31, 2019.

Warrants	As at November 17, 2017	Issued	Exercised	Exchanged	As at March 31, 2019
Series A	25,676,368	10,273,972	-	(35,950,340)	-
Series B	25,676,368	10,273,972	(35,950,340)	-	-
Series C	10,273,972		(10,273,972)	-	-
Series D	3,573,830		(3,573,830)	-	-
Series E	22,431,506		-	(22,431,506)	-
Series F	22,431,506		(22,431,506)	-	-

On September 18, 2018, the Company effected a share consolidation (reverse stock split in the ratio of 1 for 100 Common Shares outstanding) of the Common Shares on the basis of one post-consolidation Common Shares for every 100 pre-consolidation Common Shares. The number of warrants and aggregate principal amount of Notes were not affected by the consolidation, but the Common Shares issuable upon exercise of the warrants or conversion of the Notes will be adjusted proportionally to the share consolidation ratio.

The share consolidation adjusted the notional exercise price of the Series A Warrants, Series B Warrants and Series E Warrants. There were no Series D Warrants and Series F Warrants outstanding at the date of the share consolidation.

On March 12, 2019, the Company entered into exchange agreements with the holders of all of its outstanding Series A Warrants and Series E Warrants, pursuant to which the Company issued an aggregate of 496,236 Common Shares for the surrender and cancellation of all of the Series A Warrants and Series E Warrants outstanding, on the basis of 0.0085 of a Common Share for each Series A Warrant or Series E Warrant (the "Exchange"). Following completion of the Exchange, there are no longer any warrants outstanding from the 2017 Financings. Under IFRIC 19, the surrender and cancellation of Series A warrants and Series E warrants created a loss on extinguishment of \$39,367 and \$24,565, respectively.

(e) Broker Warrants

In February and March of 2019, the Company completed two \$5 million underwritten public offerings and issued 1,444,444 broker warrants ("Broker Warrants") as part of the underwriter's commission. The Company uses the Black-Scholes pricing model to calculate the fair value of the Broker Warrants. The model requires six key inputs: risk free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life and expected volatility, all of which, other than the exercise price and market price, are estimates by management of the Company. The fair value for the February 28, 2019 \$5 million public offering and 722,222 broker warrants was computed using the Black-Scholes pricing model with the following assumptions: a) average risk-free interest rate of 2.51%; b) expected life of 3 years; c) the price of the stock on the grant date of \$0.45; d) expected volatility of 81%; and e) no expected dividend payments. The fair value for the March 15, 2019 \$5 million public offering and 722,222 broker warrants was computed using the Black-Scholes pricing model with the following assumptions: a) average risk-free interest rate of 2.43%; b) expected life of 3 years; c) the price of the stock on the grant date of \$0.45; d) expected volatility of 82%; and e) no expected dividend payments. The Black-Scholes model was used to compute broker warrant fair values because it is the most commonly used pricing model and is considered to produce a reasonable estimate of fair value.

NEOVASC INC.

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17. SEGMENT INFORMATION

The Company's operations are in one business segment: the development, manufacture and marketing of medical devices. Each of the Company's product lines has similar characteristics, customers, distribution and marketing strategies, and are subject to similar regulatory requirements. Substantially all of the Company's long-lived assets are located in Canada. The Company carries on business in Canada, the United States and Europe. The Company earns revenue from sales to customers in the following geographic locations:

	For the three months ended March 31,	
	2019	2018
REVENUE		
Europe	\$ 519,293	\$ 315,922
Rest of the World	66,500	24,000
	\$ 585,793	\$ 339,922

Sales to the Company's three largest customers accounted for approximately 17%, 10%, and 8% of the Company's sales for the three months ended March 31, 2019. Sales to the Company's three largest customers accounted for approximately 16%, 14%, and 13% of the Company's sales for the three months ended March 31, 2018.

18. EMPLOYEE BENEFITS EXPENSE

	For the three months ended March 31,	
	2019	2018
Salaries and wages	\$ 1,991,227	\$ 1,968,749
Pension plan and employment insurance	171,682	158,672
Contribution to defined contribution pension plan	47,512	45,105
Health benefits	126,030	127,772
Cash-based employee expenses	2,336,451	2,300,298
Share-based payments	1,036,148	120,229
Total employee expenses	\$ 3,372,599	\$ 2,420,527

NEOVASC INC.

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19. DEPRECIATION, SHARE-BASED PAYMENTS, EMPLOYEE AND OTHER EXPENSES

	For the three months ended March 31,	
	2019	2018
EXPENSES		
Selling expenses		
Share-based payments	\$ 46,573	\$ 21,987
Cash-based employee expenses	119,067	84,590
Other expenses	202,593	180,361
	368,233	286,938
General and administrative expenses		
Depreciation	32,648	48,240
Share-based payments	586,543	69,610
Cash-based employee expenses	513,557	535,070
Litigation expenses	74,624	59,850
Employee termination expenses	-	576,364
Accretion on collaboration, license and settlement agreements provision	127,095	-
Other expenses	1,346,464	1,179,957
	2,680,931	2,469,091
Product development and clinical trials expenses		
Depreciation	111,934	42,098
Share-based payments	403,032	28,633
Cash-based employee expenses	1,703,827	1,680,638
Other expenses	2,021,170	2,248,023
	\$ 4,239,963	\$ 3,999,391
TOTAL EXPENSES	\$ 7,289,127	\$ 6,755,420
Depreciation per Statements of Cash Flows	\$ 144,582	\$ 90,338
Share-based payments per Statements of Cash Flows	\$ 1,036,148	\$ 120,229
Cash-based employee expenses (see Note 18)	\$ 2,336,451	\$ 2,300,298

NEOVASC INC.

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20. LOSS PER SHARE

Both the basic and diluted loss per share have been calculated using the loss attributable to shareholders of the Company as the numerator. The weighted average number of Common Shares outstanding used for basic loss per share for the three months ended March 31, 2019 amounted to 40,198,246 shares (three months ended March 31, 2018: 144,819,395 shares)

	For the three months ended March 31,	
	2019	2018
Weighted average number of Common Shares	40,198,246	144,819,395
Loss for the period	\$ (8,615,375)	\$ (55,880,548)
Basic and diluted loss per share	\$ (0.21)	\$ (0.38)

As the Company is currently operating at a loss no dilutive potential ordinary shares have been identified as the conversion would lead to a decrease in loss per share.

21. RELATED PARTY TRANSACTIONS

The Company's key management personnel include members of the board of directors, executive officers and former executive officers. The Company provides salaries or cash compensation, and other non-cash benefits to directors and executive officers.

	For the three months ended March 31,	
	2019	2018
Short-term employee benefits		
Employee salaries and bonuses	\$ 357,023	\$ 299,582
Directors fees	67,500	67,500
Social security and medical care costs	34,652	19,647
	459,175	386,729
Post-employment benefits		
Contributions to defined contribution pension plan	8,741	6,347
	624,678	22,174
Share-based payments		
Total key management remuneration	\$ 1,092,594	\$ 415,250

NEOVASC INC.

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22. CONTINGENT LIABILITIES AND PROVISIONS

Litigation

Litigation resulting from third party claims has been, and may be, costly and time-consuming and could divert the attention of management and key personnel from our business operations. Although we intend to vigorously defend ourselves against any future claims that may occur, we cannot assure that we will succeed in appealing and defending any of these claims and that judgments will not be upheld against us. If we are unsuccessful in our appeal and defense of these claims or unable to settle the claims in a manner satisfactory to us, we may be faced with significant loss of intellectual property rights that could have a material adverse effect on the Company and its financial condition.

Claims by CardiAQ in Germany

On June 23, 2014, CardiAQ filed a complaint against Neovasc in Munich, Germany (the "German Court") requesting that Neovasc assign its right to one of its European patent applications to CardiAQ. After a hearing held on December 14, 2016, the German Court rendered its decision on June 16, 2017, granting co-ownership of the European patent application to CardiAQ but denying their claim for full entitlement. On July 14, 2017, Neovasc filed a notice of appeal against the German Court's decision with the Appeals Court of Munich. On July 20, 2017, CardiAQ filed a notice of appeal with the same court. Both parties have in the meantime substantiated their respective appeals. The oral hearing of the appeal before the Appeals Court of Munich was held on November 8, 2018. During that hearing CardiAQ dropped its affirmative appeal of the underlying decision, while maintaining its opposition to Neovasc's appeal. The decision of the Appeals Court of Munich was rendered on March 21, 2019, wherein it amended the decision of the German Court and dismissed the complaint of CardiAQ in full. There are no monetary awards associated with these matters and no damages award was recognized.

Claims by CardiAQ in the United States

On March 24, 2017, CardiAQ filed a related lawsuit in the Court, asserting two claims for correction of patent inventorship as to Neovasc's U.S. Patents Nos. 9,241,790 and 9,248,014. On October 4, 2017, CardiAQ amended its pleading to add a third claim for correction of patent inventorship as to Neovasc's U.S. Patent No. 9,770,329. The lawsuit did not seek money damages and would not have prevented the Company from practicing these patents. The Company moved to dismiss the complaint on November 16, 2017, and the Court denied this motion on September 28, 2018. On August 3, 2018, Neovasc wrote the presiding District Judge regarding potential resolution of the case including as to a statutory procedure available with the Patent Office concerning certain dependent claims of U.S. Patent 9,770,329 in particular, and the Court held a hearing to discuss this issue on September 13, 2018. On April 17, 2019, the Company resolved the three claims for correction of patent inventorship and, without reaching conclusion on the merits of the claims, the parties agreed to the correction of patent inventorship and added co-inventors to the three patents in question. Each party will bear its own costs. There were no monetary awards associated with these matters and no damages award was recognized.

Other Matters

By way of Amended Statement of Claim in Federal Court of Canada Action T-1831-16 (the "Action"), Neovasc Inc. and Neovasc Tiara Inc. (the "Neovasc Defendants") were added as defendants to an existing action commenced by Edwards Lifesciences PVT, Inc. and Edwards Lifesciences (Canada) Inc. (collectively the "Edwards Plaintiffs") against Livanova Canada Corp., Livanova PLC, Boston Scientific and Boston Scientific Ltd. (collectively, the "BSC/Livanova Defendants"). The Action was first filed in October 2016 and first concerned an allegation by the Edwards Plaintiffs that the manufacturing, assembly, use, sale and export of the Lotus Aortic Valve devices by the BSC/Livanova Defendants infringes on the Edwards Plaintiffs' patents. In February 2017, the Neovasc Defendants were added to the Edwards Plaintiffs' claim making related allegations. In summary, the Edwards Plaintiffs make three types of allegations as against the Neovasc Defendants: (a) indirect infringement claims; (b) direct infringement claims; and (c) claims of inducement. The Edwards Plaintiffs seek various declarations, injunctions and unspecified damages and costs. The Neovasc Defendants filed their Statement of Defence in November 2017. The other defendants filed their Statement of Defence and Counterclaim against the Edwards Plaintiffs on April 30, 2018. On January 22, 2019, the Company announced that pursuant to a settlement reached with the Edwards Plaintiffs, the patent infringement action that the Edwards Plaintiffs had previously commenced in the Federal Court of Canada against the Neovasc Defendants, Boston Scientific and Livanova, has been dismissed on a no-costs basis. No damages award was recognized.

NEOVASC INC.

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22. CONTINGENT LIABILITIES AND PROVISIONS (continued)

Other Matters (continued)

On August 3, 2018, the Company announced that it had entered into a collaboration and licensing agreement with Penn Medicine and the Gorman Cardiovascular Research Group at the University of Pennsylvania (collectively, "UPenn"), which resolved certain potential claims against the Company that had been previously disclosed. The collaboration and licensing agreement with UPenn contemplates certain fees being paid by Neovasc to UPenn, including fees in installments totaling \$2.65 million over the four years following the agreement's execution. In addition, Neovasc agreed to pay UPenn a royalty of 1.0-1.5% on the annual net sales of the Tiara following the first commercial sale of the Tiara. Also contained in the collaboration and licensing agreement are buy-out clauses that allow Neovasc, or an acquirer of Neovasc or the Tiara assets, to buy out these royalty obligations. As part of the collaboration and licensing agreement, certain potential claims against the Neovasc Defendants were resolved.

When the Company assesses that it is more likely that a present obligation exists at the end of the reporting period and that the possibility of an outflow of economic resources embodying economic benefits is probable, a provision is recognized and contingent liability disclosure is required. The Company has accrued \$1,468,808 as at March 31, 2019 representing the discounted value of future payments anticipated under the settlement agreement with UPenn. The Company has not accrued for any future royalty payments in the settlement agreement with UPenn as the amounts are undeterminable at this time.

On September 7, 2018, Endovalve Inc. and Micro Interventional Devices, Inc. (collectively, "Endovalve") filed a complaint in the United States District Court for the District of New Jersey against the Neovasc Defendants, alleging claims for trade secret misappropriation, breach of contract, and unfair competition. Endovalve alleged that it was a former customer of Neovasc Inc., and that the Neovasc Defendants improperly used trade secrets in the development of Tiara. The complaint sought injunctive relief, money damages, and attorneys' fees. On February 20, 2019, the Company announced that it had entered into a settlement agreement with Endovalve. The settlement agreement with Endovalve contemplates certain fees being paid by Neovasc to Endovalve, including settlement fees in installments totaling \$3 million over the two and a half years following the agreement's execution. In addition, Neovasc agreed to pay Endovalve a royalty of 1.3% on the annual net sales of the Tiara following the first commercial sale of the Tiara. Also contained in the settlement agreement are buy-out clauses that allow Neovasc, or an acquirer of Neovasc or the Tiara assets, to buy out these royalty obligations. As part of the settlement agreement, the claims against the Neovasc Defendants were dismissed with prejudice.

When the Company assesses that it is more likely that a present obligation exists at the end of the reporting period and that the possibility of an outflow of economic resources embodying economic benefits is probable, a provision is recognized and contingent liability disclosure is required. The Company has accrued \$2,038,045 as at March 31, 2019 representing the discounted value of future payments anticipated under the settlement agreement with Endovalve. The Company has not accrued for any future royalty payments in the settlement agreement with Endovalve as the amounts are undeterminable at this time.

23. SUBSEQUENT EVENTS

On April 17, 2019, the Company resolved the three claims for correction of patent inventorship made by CardiAQ (as described in Note 22 under the heading "Claims by CardiAQ in the United States") and, without reaching conclusion on the merits of the claims, the parties agreed to the correction of patent inventorship and added co-inventors to the three patents in question. Each party will bear its own costs. There were no monetary awards associated with these matters and no damages award was recognized.

24. AUTHORIZATION OF FINANCIAL STATEMENTS

The condensed interim consolidated financial statements for the three months ended March 31, 2019 (including comparatives) were approved by the audit committee on behalf of the board of directors on May 9, 2019.

(signed) **Chris Clark**

Chris Clark, Chief Financial Officer

(signed) **Steve Rubin**

Steve Rubin, Chairman